
Senate Budget and Fiscal Review—Denise Moreno Ducheny, Chair
SUBCOMMITTEE NO. 1 on Education



Subcommittee No. 1
Chair, Jack Scott
Member, Bob Margett
Member, Joe Simitian

April 17, 2007
1:30 pm – Room 113

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I. CALIFORNIA STATE UNIVERSITY (Item 6610)

B. Overview of Governor's Budget

Governor's 2007-08 CSU Budget Proposal				
(Dollars in Millions)				
	2006-07 Budgeted	2007-08 Proposed	Change	
			Amount	Percent Change
CSU				
General Fund	\$2,811.4	\$2,976.3	\$164.9	5.9%
Fee revenue	1,243.4	1,366.4	123.0	9.9
Subtotals	(\$4,054.8)	(\$4,342.7)	(\$287.9)	(7.1%)
All other funds	\$2,631.9	\$2,433.2	-\$198.7	-7.5%
Totals	\$6,686.7	\$6,775.9	\$89.2	1.3%

C. General Support Increases. Pursuant to the *Compact*, the Governor's proposal provides a four percent or \$108.9 million base budget increase for CSU. Through the current year, the *Compact* called for a three percent base budget increase; the additional one percent "bump" becomes effective under the terms of the *Compact* beginning in 2007-08.

Under the assumption that this base budget increase should be designed as a cost-of-living-adjustment (COLA), the LAO is recommending that the Legislature instead fund a base budget increase of 2.4 percent or \$65.3 million, which reflects the estimated rate of inflation. According to the LAO, \$65.3 million should be sufficient for CSU to cover the increased operations costs for the coming year.

Staff notes that the \$43.6 million which makes up the difference between the Governor's Budget proposal and the LAO's recommendation is targeted by the CSU for employee compensation. These funds are traditionally pooled for faculty and staff COLA, merit, benefit, and equity increases and then distributed pursuant to collective bargaining or other compensation agreements.

Staff recommends that this issue be held open pending the Governor's May Revision and a better assessment of the condition of the state General Fund.

D. Status of Employee Compensation Issues. On April 3, 2007, the California State University reached a tentative agreement with its faculty union (the California Faculty Association) on a four-year employment contract. This agreement was reached after 22 months of negotiations, during which time the current contract was extended several times. This tentative agreement must still be

ratified by the membership of the California Faculty Association, followed by approval of the CSU Board of Trustees.

While the parameters of the negotiated contract have been reported, the final ramifications of the agreement on CSU's budget and a determination of whether or not the CSU will seek additional funds from the state are still being considered. Following is a brief summary of the tentative contract:

- 20.7 percent increase in General Salary Increases over the term (four years) of the contract;
- One percent step increase in each year of the contract; approximately one-third of faculty members are eligible annually for such increases;
- Combined, this equates to an increase for faculty of 3.98 percent in the first year (2006-07); 6.50 percent in the second year; 6.97 percent in the third year; and 7.50 percent in the final year
- \$28 million to be set-aside to provide for two new merit-based pay programs aimed at both junior- and senior-level faculty;
- An additional one percent increase in each of the last three years of the contract, contingent upon additional funding provided for this purpose in the Budget Act.

Three other union/collective bargaining groups (CSU-EU; Academic Professionals; and Skilled Crafts) have contract that contain "double-joining" language which calls for additional salary increases contingent upon CSU negotiating an agreement with the California Faculty Association. As a result, each of these three groups will also receive an additional one percent increase.

CSU has indicated that, in the current year, the combined cost of the above contract provisions will be approximately \$10.6 million more (on an ongoing basis) than CSU has budgeted for compensation. As such, the CSU system intends to absorb this increased cost (on a one-time basis) by requiring campuses to redirect funds from other programs. In future years, that \$10 million cost grows: to \$41 million in 2007-08 and 2008-09, and to \$45 million in 2009-10. It remains unclear if CSU will seek additional state resources, above the amount proposed by the *Compact*, to cover these costs.

E. Student Fees.

1. 2007-08 Proposal. Consistent with his *Compact*, the Governor increases fees at both the UC and CSU. For CSU, fees are proposed to increase by ten percent for undergraduate, graduate, and teacher credentialing students. Recent actions by the CSU Trustees approved these fee increases, but allow them to be rescinded should the Legislature and the Governor elect to "buy out" the increases with an augmentation of General Fund monies. This fee increase will produce revenues of approximately \$97.8 million dollars. Of this amount, CSU intends to return approximately 33% or \$32.6 million to financial aid programs in order to offset the impact of the fee increase on low-income students that were not otherwise eligible for a Cal Grant, and to the extent that funds are available, middle income students (depending on their individual financial circumstances.) The net result is approximately \$65.2 million in new revenue to the CSU system.

Background on 2007-08 Fee Increases. Instead of initially proposing fee increases in their November 2006 budget documentation (as is the tradition), the CSU Trustees proposed a system budget that contained a set of revenue and resource assumptions. They stated that those revenues – equating to roughly \$65.2 million – could come from either the State General Fund (in the form of a student fee "buy out") or from a Student Fee Increase. This was a change from past practice in that it placed the burden of actually imposing a fee increase on the Governor, in that the determination would ultimately be made by whether or not he provided \$65.2 million in additional General Fund in his January budget proposal.

2. General Student Fee Background. In 2004-05, the Governor proposed his own long-term student fee policy. Rather than codifying his proposal or otherwise obtaining legislative approval, the Governor instead chose to integrate these student fee “principles” into his *Compact* with UC and CSU.

In 2006-07, *contrary to his Compact*, which called for UC and CSU to increase fees by eight percent for undergraduates and ten percent for graduate students, the Governor and the Legislature "bought out" those fee increases by providing \$54.4 million General Fund to CSU and \$75 million to UC in lieu of the revenue they *would* have received from a fee increase.

In the future, the Governor's *Compact* calls for undergraduate fees to increase at the same rate as per capita personal income, starting with the 2007-08 fiscal year, and not exceed a ten percent increase in any given year. Also beginning in 2007-08, graduate student fees are proposed to increase to a level equivalent to 150 percent of undergraduate fees.

According to CPEC, fees at the CSU remain below those of their comparison institutions (including, Rutgers University, University of Maryland, State University of New York, and Arizona State University, among others). Comparison school fees averaged \$6,655 in **2006-07**, which is \$3,204 more than the amount proposed for CSU resident undergraduates in **2007-08**. For graduate students, fee levels at CSU continue to be significantly lower than at its comparison institutions, by over \$4,700 annually.

As discussed earlier, the Governor proposes to increase student fees by ten percent which equates to a level of \$3,451 for undergraduate students and \$4,093 for Graduate students. Nonresident tuition for out-of-state students is proposed to remain constant at \$10,170 (this amount is paid in addition to the fee levels noted above.)

The chart on the following page offers a recent history of fee levels at the CSU:

California State University Student Fees				
	<u>Undergraduate</u>		<u>Graduate</u>	
	Resident	Nonresident	Resident	Nonresident
1994-95	\$1,584	\$8,964	\$1,584	\$8,964
1995-96	1,584	8,964	1,584	8,964
1996-97	1,584	8,964	1,584	8,964
1997-98	1,584	8,964	1,584	8,964
1998-99	1,506	8,886	1,584	8,964
1999-00	1,428	8,808	1,506	8,886
2000-01	1,428	8,808	1,506	8,886
2001-02	1,428	8,808	1,506	8,886
2002-03	1,428	9,888	1,506	9,966
2002-03	1,573	10,033	1,734	10,194
(fees increased mid-year)				
2003-04	2,572	11,032	2,782	11,242
2004-05	2,916	13,086	3,402	13,572
2005-06	3,164	13,334	3,746	13,916
2006-07	3,199	13,334	3,781	13,951
2007-08	3,451	13,334	4,093	14,263

Note: Actual fees may vary by campus depending on the particular level of campus-based fees.

The LAO raises a variety of issues related to how student fee levels are established. The LAO and the CSU approach budgeting from two different perspectives. Using an overly simplified explanation, CSU first determines the total resources it will need to operate in any given fiscal year, and then delineates the portion of the revenue which will be derived from the *Compact* versus the portion to come from student fees (or conversely the "buying out" of student fees). The end result is that CSU has driven the Legislature to formulate a statewide expenditure plan that, assuming the Legislature abides by the provisions of the *Compact* and either increases fees or provides a like amount of General fund, fully meets CSU's financial needs, as defined by the CSU. The Legislature has traditionally agreed with this budgeting technique, believing that CSU is best able to determine the resource needs of its campuses.

The LAO takes a different approach. Instead of "buying into" CSU's definition of its resource needs, the LAO believes that the Legislature should define the amount of resources CSU needs to operate, as well as the percentage of those resources that should be derived from student fees. Under the LAO's approach, the Legislature would appropriate an amount that, when coupled with the anticipated fee revenues, would be sufficient to cover inflationary adjustments, and thus expect that CSU operate within those resources.

To meet this end, the LAO is recommending that the committee reject the Governor's proposed fee increase and instead adopt a more modest increase of 2.4 percent. This 2.4 percent increase is linked to the rate of inflation experienced by the CSU and would ensure that students continue paying the same "share" of their educational costs in 2007-08 as they are currently paying. Further, the LAO is recommending that the Legislature **NOT** provide a "backfill" for the remaining amount of the Governor's proposed fee increase, believing instead that CSU should be able to operate with the approximate \$65.2 million in revenue that would be generated by a 2.4 percent fee increase.

Staff recommends that the committee hold this issue open, pending the Governor's May Revision.

F. Student Enrollment Growth.

1. Status of Current Year Enrollment Levels.

Pursuant to language adopted as part of the Annual Budget Act, CSU is required to meet specified enrollment targets; this language has been adopted by the Legislature in recent years to ensure that the dollars appropriated for enrollment growth are indeed used to enroll additional students. If funds are not used for this purpose and the CSU fails to meet the specified targets, the Budget Bill requires that the unused funds be reverted to the General Fund.

In the current year, CSU enrollment target is 334,198 full-time equivalent students (FTES). This FTES target represents the number of students that CSU received enrollment growth funding for in the current year. At present, CSU estimates that, system-wide, it will be "over-enrolled" by approximately 6,095 FTES. While these "over-enrolled" students pay fees, and thus provide the university with fee revenue, CSU receives no additional state enrollment funding for these students.

CSU will likely comment that they tend to over-enroll students in order to accept all eligible students; however, staff would note that, campuses do have options to limit enrollments, while still "accepting all eligible students." One such option is to impose, and adhere to, application deadlines.

2. Enrollment Growth Projections for 2007-08.

Pursuant to the *Compact*, the Governor's Budget proposes to fund enrollment growth equivalent to 2.5 percent. At CSU, this 2.5 percent increase equates to 8,355 FTES and an augmentation of \$65.5 million.

As part of its *Analysis of the 2007-08 Budget Bill*, the LAO conducted a review of enrollment growth projections and trends and determined that providing funding for enrollment growth of 2.5 percent was excessive. Instead, the LAO is recommending that the state fund enrollment growth of 2.0 percent, a level which the LAO believes will easily accommodate population increases in the college-going age range as well as increases in historic college participation rates. Further supporting the LAO's assertion is the Department of Finance Demographics

Unit, which predicts that CSU's enrollments will grow by approximately 1.2 percent in 2007-08.

CSU contends that 2.5 percent enrollment growth is: (1) consistent with the growth targets outlined as part of the Administration's "*Compact*"; (2) the minimum amount needed to continue admitting all eligible students (both first-time freshman and transfer students); and (3) necessary to get the system "back on track" after several years of managing enrollments downward. However, CSU has expressed concerns that, given the level of "over-enrollment" in the current year (72% above the levels budgeted), even the 2.5 percent growth proposed by the Governor may not be sufficient to meet their increased enrollment trends.

Staff recommends that funding for enrollment growth at the proposed 2.5 percent level be placed on the "checklist" pending the Governor's May Revision.

G. Governor's Math/Science Initiative. As part of the 2005-06 Budget Act, the Legislature appropriated \$250,000 to the CSU and \$750,000 to the UC to increase the number of math and science teachers. In addition to this broad goal, CSU was charged with "coordinating the development of curriculum and services for four-year blended credential programs for math and science majors."

At the CSU, funds are being used to develop additional on-line programs targeted at "upgrading" single-subject credential holders to multi-subject credentials. Funds are also being used for outreach to students in community colleges to encourage them to become math and science teachers.

Included in the 2006-07 Budget, is \$1.1 million for UC to fully-fund their campus-based resource centers and \$1.4 million CSU. In the current year, CSU intends to use the additional current year funds to: (1) develop multiple math and science teaching credential pathways; (2) continue providing outreach and recruitment to community colleges students; (3) stage a PR campaign, including web site development and printed materials; and (4) administer the program, including hosting statewide conferences and meetings.

Governor's 2007-08 Proposal. The Governor continues providing \$1.1 million to UC for this program, but increases funding for CSU by \$2.0 million to a total of \$2.713 million. CSU indicates that they intend to use the \$2 million increase to: (1) continue and expand the multiple math and science teaching credential pathways; (2) establish three regional centers to allow for multi-campus collaboration for recruitment activities; and (3) promote teaching "academies", summer teacher recruitment programs, online training programs and community college bridge programs.

Neither the LAO nor staff raised concerns with the funding provided to UC, however at the time of its *Analysis of the Budget Bill*, the LAO withheld recommendation on the \$2 million augmentation to CSU, pending receipt of a progress report on CSU's implementation of the Math and Science Initiative.

CSU recently submitted a report on the progress of the Initiative; however, neither staff nor the LAO have had time to review the documents. As such, staff recommends that funding for this project be held open, pending the Governor's May Revision, to allow both staff and the LAO sufficient time to review the report.

II. CALIFORNIA STATE LIBRARY (Item 6120)

Governor's 2007-08 Budget Proposal				
California State Library (General Fund)				
<i>(Dollars in Thousands)</i>				
	Revised 2006-07	Proposed 2007-08	Change	
			Amount	Percent
State Operations				
Support/operating budget	\$11,100	\$11,961	861	7.8%
Lease-revenue bonds	2,454	2,348	-106	-4.3%
Repairs for Sutro Library	17	17	0	0%
<i>Subtotals</i>	<i>\$13,571</i>	<i>\$14,326</i>	<i>\$755</i>	<i>5.6%</i>
Local Assistance				
CA Civil Liberties Public Education Prog.	\$500	\$500	0	0%
California Newspaper Project	240	240	0	0%
California Library Services Act	21,342	21,342	0	0%
CA English Acquisition & Literacy Prog.	5,064	5,064	0	0%
Public Library Foundation	21,360	21,308	-52.0	0%
<i>Subtotals</i>	<i>48,506</i>	<i>48,454</i>	<i>-\$52.0</i>	<i>0.1%</i>
Totals	\$62,077	\$62,780	703.0	1.1%

The Governor's Budget proposes a total of \$89.9 million for the California State Library's operations and the various local assistance programs. Of that amount, \$62.8 million is from the General Fund, the remainder comes from other sources, including state special funds, federal funds, and bond funds.

Background. The California State Library provides library and information services to the legislative and executive branches of state government, members of the public, and California public libraries. In addition, the State Library: (1) administers and promotes literacy outreach programs; (2) develops technological systems to improve resource sharing and enhance access to information; and (3) administers the Public Library Foundation, which, via a statutory formula, distributes state funding to support basic services at local libraries.

A. Integrated Library System Replacement Project. The Governor's Budget shifts \$52,000 in funding from the Public Library Foundation to the State Library's operational budget to fund the first year of a three-year information technology project.

According to the State Library, the Integrated Library System Replacement Project is necessary to keep the State's library records automated in the face of the vendor's phase-out of the current information technology system. The current system has been in operation since 1989 and while it has served the State Library well, the vendor who designed and supports the system will cease upgrading it or providing any maintenance or support.

The total cost for the project is \$2.5 million; however, the State Library intends to redirect approximately \$937,000, leaving the balance of the project to be funded with additional state resources. The \$52,000 "provided" for this project represents the additional costs to the state in year one; costs in year two – at which time the state will actually procure the new system – escalate to \$1.4 million; in year three, the project would require an additional \$135,000. On an ongoing basis, the State Library will need an additional \$250,000 annually to maintain the new system.

Library advocates have raised concerns with the redirection of funds for this project from the Public Library Foundation (PLF) – which provides money to local libraries. DOF believes that since local libraries will have public access to the State Library's catalog, it is appropriate for the PLF to fund (at least) the first year of the project's costs.

Staff notes that while \$52,000 represents less than 0.2% of the total amount appropriated to the PLF, the essence of the project is to catalog and maintain State of California library holdings, for state purposes. While the public will indeed have access to these records, funding for the project appears to be more appropriately borne by the state, and not redirected from funding allocated to local libraries. Furthermore, it remains unclear if out-year costs (\$1.4 million in 2008-09 and ongoing operational costs beginning in 2009-10) would also be funded out of the PLF.

Staff recommends that the committee: (1) Approve the Integrated Library System Replacement Project; (2) reject the Governor's budget proposal to shift funds from the PLF to cover the costs; and instead (3) augment the State Library's State Operations budget by \$52,000 to cover the first-year costs of the project.

B. Public Library Foundation. The Governor's Budget proposes to *reduce*, by \$52,000, the amount of funding available for the Public Library Foundation (PLF), bringing total funding in 2007-08 to \$21.3 million. This program provides core operational assistance to local libraries and is used to support library staffing; maintain hours of operation; develop and expand library-based programs such as after-school reading programs and homework assistance centers; and purchase books and materials. The Governor's proposal redirects \$52,000 from the PLF to fund the Integrated Library System, as discussed above.

At its peak (in 2000-01) the state appropriated \$56.9 million to the Public Library Foundation. Since then, local libraries had experienced a rapid decline in support for the program, equating to an approximate 75 percent reduction over six years. The Legislature and the Governor took action to halt these reductions by providing a \$7 million augmentation in the current year budget, bringing the total appropriation level to \$21.4 million.

Staff recommends that \$52,000 be shifted back to the PLF (pursuant to the above-noted recommendation), and that the remainder of the item be held open pending the May Revision.

III. CALIFORNIA STUDENT AID COMMISSION (Item 7980)

The Governor's 2007-08 Budget proposes a total of \$1.7 billion in expenditures from all funding sources (\$891.6 million General Fund) for the California Student Aid Commission. This proposal reflects a \$64.1 million or a 3.9 percent increase above estimated current-year expenditures.

Figure 1 Student Aid Commission Budget Summary^a				
<i>(Dollars in Millions)</i>				
	2006-07 Revised	2007-08 Proposed	Change	
			Amount	Percent
Expenditures				
Cal Grant programs				
Entitlement	\$666.5	\$725.6	\$59.1	8.9%
Competitive	114.2	117.3	3.1	2.7%
Pre-Entitlement	1.4	0.2	-1.2	-86.7%
Cal Grant C	8.9	9.2	0.3	3.4%
<i>Subtotals—Cal Grant</i>	<i>\$791.0</i>	<i>\$852.3</i>	<i>\$61.3</i>	<i>7.8%</i>
APLE ^b	\$46.3	\$49.3	\$2.9	6.3%
Graduate APLE	0.4	0.4	—	—
National Guard APLE	—	0.2	0.2	N/A
Law enforcement scholarships	0.1	0.1	—	—
Totals	\$837.8	\$902.3	\$64.5	7.7%
Funding Sources				
General Fund	\$827.2	\$891.6	\$64.4	7.8%
Federal Trust Fund	10.7	10.7	—	—
^a In addition to the programs listed, the commission administers the Byrd Scholarship and the Child Development Teacher and Supervisor programs—both of which are supported entirely with federal funds. It also administers the Student Opportunity and Access program, an outreach program supported entirely with Student Loan Operating Fund monies. ^b Assumption Program of Loans for Education.				

Specifically, the Governor's Budget proposes an increase of \$61.3 million (7.8 percent) over the current year expenditures for the Cal Grant Program. Following are the increases to the Cal Grant Program as proposed by the Governor: (1) an increase in the total number of Cal Grants entitlement awards available (by 1,784 for a total of 255,235 new and renewal grants) based on new estimates of eligible high school graduates, transfer students and renewal applicants (\$32.6 million); and (2) an increase in the maximum Cal Grant award level for students attending UC and CSU to cover the

costs associated with the proposed fee increases (\$28.7 million). The maximum award level for students attending private colleges is proposed to remain unchanged.

Other adjustments to the Student Aid Commission's budget include a \$2.9 million increase in the funding available for the Assumption Program of Loans for Education Program (APLE). This funding adjustment is needed to cover the loan-forgiveness costs associated with previously-issued warrants. In addition, the Governor proposes to issue 8,000 new APLE warrants in 2007-08, the same number as authorized in the current year. Of the 8,000 new warrants, the Governor proposes to "set-aside" 600 warrants specifically for students participating in the UC and CSU Math and Science Teacher Initiative (as discussed later in this agenda.)

In addition, the Administration's budget proposal continues the National Guard APLE program, pending an extension of the program's sunset date. This program offers loan forgiveness to individuals who enlist or re-enlist in the National Guard, State Military Reserve and/or Naval Militia.

A. Assumption Program of Loans for Education (APLE). The Governor's budget authorizes 8,000 new APLE loan assumption warrants (an increase of 600 from the current year); however, the Governor proposes allocating the 600 new warrants directly to the UC and CSU to award exclusively to students participating in their Math and Science Teacher Initiative.

This proposal represents the third time, in as many years, that the Legislature has examined this proposal – each time rejecting it. Instead, this committee has taken several alternative actions. For the 2005-06 Budget, the Legislature denied the Governor's proposal and instead expressed that priority for 300 new APLE warrants be given to individuals training to become math, science, and special education teachers, regardless of the institution they are attending. The intent of the language was to conform to current statute (which already grants priority for teachers in these specialty areas) and meet the need for more math and science teachers *within* the confines of the *current* APLE program, rather than developing either a new loan assumption program or fragmenting the existing APLE program. Further, the language sought to acknowledge that math and science teachers are produced from a variety of institutions, not just the UC and CSU.

When hearing the 2006-07 Governor's Budget, the committee again denied the same proposal. This time, the Legislature simply rejected the proposal but retained the number of authorized APLE warrants at 8,000. The Governor vetoed the number of awards down to 7,400 and "set-aside" the 600 warrants specifying that they be allocated to UC and CSU pursuant to Legislation – Legislation which was never enacted.

The concerns raised by staff and the LAO for the past two years, remain unchanged. Specifically, there is no evidence to suggest that the existing APLE program (in its current format) cannot meet the needs of the state in recruiting and retaining new Math and Science teachers. Further, both staff and the LAO have expressed concern that a set-aside of awards will only create confusion for students and administrators and further restrict an already underutilized program. In addition, the development of a new APLE program, or a set-aside within the existing program, has traditionally been viewed as a policy issue that should be contained in separate legislation.

In response, the UC and CSU believe that having 600 loan assumption warrants at their disposal is crucial to recruiting UC and CSU students to become math and science teachers, and critical to the ultimate success of their Math and Science Teacher Initiative. They believe that students participating in their Initiative will likely have higher completion rates in both the teacher preparation programs and their math/science teaching commitment.

Both DOF and the LAO note that the APLE program is underutilized. According to the LAO, approximately 10 percent of APLE warrants go unused. DOF cites this underutilization as a reason to support the set-aside of 600 warrants for UC and CSU's Math and Science Teacher Initiative, believing that the warrants will not encroach on the existing program. The LAO, on the other hand, argues that the underutilization presents yet another reason NOT to support the proposal: seeing no point in further restricting a program that already has more slots than participants.

Staff recommends that the committee hold this issue open pending the May Revision.

- B. State Nursing - Assumption Program of Loans for Education (SNAPLE).** Initially established in statute via the 2005-06 Budget Trailer bill, the SNAPLE program is designed to encourage individuals to complete their graduate-level education in nursing and serve as nursing faculty at accredited California colleges and universities. Similar to the APLE program, the state forgives a specified amount of student loan debt for each year a SNAPLE participant teaches nursing. Under this program, the state will assume up to \$25,000 in outstanding student loans if the participant teaches nursing for three consecutive academic years.

In 2005-06, the Legislature originally authorized the issuance of 100 new loan assumption warrants, and \$100,000 and one position, to administer the program to administer a new APLE program aimed at recruiting individuals into nursing education. Those warrants went unused due to a delay in getting the program implemented.

In 2006-07, the Governor failed to include continued authority for new loan assumption warrants, despite legislative intent that the program be ongoing. In response, the Legislature authorized the Student Aid Commission to issue 100 loan assumption warrants for the program in the current year.

For 2007-08, the Governor's Budget, once again, includes language requiring the Student Aid Commission to issue a report on the SNAPLE program by April 1, 2008, but fails to provide authority for the Commission to issue new SNAPLE loan assumption warrants. This is the same proposal submitted by the Governor last year.

In the past, DOF indicated that it believed the program to be one-time in nature. However, staff notes that was not the intent of the Legislature (as evidenced by several factors.) DOF now contends that it wants to ensure that current year loan assumption authority is utilized prior to "authorizing" the issuance of any additional warrants.

According to the Student Aid Commission, the SNAPLE program has indeed had a slow start. The Commission is in the process of promulgating regulations through the Office of Administrative Law, and intends to issue at least a portion of the 100 authorized warrants in the current year. Given that these warrants were authorized for the 2006-07 fiscal year, the authority

will simply expire as of June 30, 2007, if the Legislature does not explicitly authorize additional warrants for 2007-08.

Staff recommends that the Legislature continue the program into 2007-08 by authorizing the issuance of 100 new SNAPLE loan assumption warrants in the Budget Act.

- C. State Facilities – Nursing Loan Assumption Program (SNAPLE-SF).** Established in statute in 2006, the SNAPLE-SF program provides up to \$20,000 in loan assumption benefits (\$5,000 per year for four years) as an incentive for registered nurses to work in 24-hour state facilities, including prisons, mental hospitals, and veteran's homes.

Senate Bill 139 (Scott), which is currently making its way through the legislative process, would clarify that the SNAPLE-SF program applies to new employees, not existing employees.

In the current year, the 2006-07 Budget Act authorized the Student Aid Commission to issue 40 loan assumption warrants for this program. The Commission has indicated that they are in process of promulgating regulations for the program and intends to issue the 40 authorized warrants this year.

In 2007-08, the Governor's Budget proposed that no new warrants (above the initial 40) be issued for this program, despite both the ongoing nature of the statute and the ongoing operational support (\$30,000) which was provided in the 2006-07 Budget Act.

Staff recommends that the Legislature continue the program into 2007-08 by authorizing the issuance of an additional 40 new SNAPLE-SF loan assumption warrants in the Budget Act.

- D. Public Interest Attorney Loan Repayment Program.** Current statute establishes the Public Interest Attorney Loan Repayment Program to encourage licensed attorneys to practice in public interest areas of law, which includes, but is not limited to, legal services organizations, prosecuting attorney's offices, child support agency offices, and criminal public defender's offices. Similar to the APLE program, the state forgives a specified amount of student loan debt for each year a Public Interest Attorney practices law in specified arenas. Under this program, the state will assume up to \$11,000 in outstanding student loans if the participant practices public interest law for four years. While this program has been "on the books" since established by the Legislature in 2001, it has yet to become operational due to an absence of state funding and authority for the Student Aid Commission to issue loan assumption warrants.

Legislation introduced this session (Assembly Bill 171, Beall) would restructure the program to more closely align it with the existing APLE programs and add county counsel offices as an eligible "public interest" area for purposes of loan forgiveness. Related legislation includes Assembly Bill 1267 (Feuer), which would establish a new Civic Service Loan Assumption Program that would pay back student loans incurred by UC and CSU students who enter "civic" service, as defined.

Background. Since 2001, the cost of receiving a legal education has increased dramatically, as student fees and educational costs have risen. As an example, in 2001, a resident student attending Hastings College of Law paid \$11,232 annually in student fees, compared with \$23,768 proposed for 2007-08. Faced with increasing debt burdens, many law school graduates have

expressed that they are financially unable to choose public interest law due to the lower-paying salaries inherent in those positions.

Staff recommends that the committee consider providing start-up costs for the program, including one position and \$100,000 to promulgate regulations and begin implementing the Public Interest Attorney Loan Repayment Program, contingent upon the May Revision.

E. EdFUND Operational and Fiscal Issues

Background. Operating under California statute, EdFUND is a nonprofit “auxiliary” organization of the California Student Aid Commission which administers the Federal Family Education Loan Program (FFELP) on behalf of the state. Student loans under the FFELP are guaranteed by the federal government in order to ensure that lenders themselves do not bear the risk associated with lending money to students (who traditionally have no credit or payment history) and that students do not “pay” for this increased risk in the form of high loan fees and interest rates. In addition to FFELP, the federal government also operates a Direct Lending program which places the federal government in the role of both lender and guarantor by directly lending money to students via their educational institutions.

Colleges and universities which offer student loan programs have a choice between a variety of FFELP “guarantors” (EdFUND is one of several guaranty agencies in the country) or the federal Direct Lending program. In the mid-1990s, the Legislature and the Governor explicitly granted the Student Aid Commission’s request to statutorily establish EdFUND, freeing the organization of state bureaucratic constraints, so that it could actively participate in the competitive student lending and guaranty marketplace.

In recent years, when EdFUND's Student Loan Operating Fund was flush, the Legislature and the Governor EdFUND dollars to support the continued operations of the Student Aid Commission (\$15.4 million ongoing) as well as to supplant state money in the Cal Grant program (on a one-time basis.)

1. Status of Student Aid Commission/EdFUND Operating Agreement.

The Student Aid Commission’s governing board annually delineates the activities of the commission’s auxiliary organization (EdFund) through a Memorandum of Understanding, also known as their “operating agreement.” In recent years, the Legislature has expressed concern with some aspects of the way EdFund has carried out these activities and with CSAC’s oversight of EdFund activities. For example, in 2005, the Legislature held several hearings that identified concerns with the administration of FFELP in the state. In response, the Legislature: (1) directed the LAO to prepare a report that identified various “structural options” for improving access to these loans; and (2) directed the State Auditor to perform an audit of CSAC and EdFund’s administration of FFELP.

The CSAC committed to the Auditor and the Legislature that it would modify its operating agreement with EdFund in response to their concerns. When it became clear that CSAC would not be able to approve a new operating agreement before the existing agreement was set to expire on September 30, 2006, CSAC sought an extension until January 31, 2007. In notifying the Legislature of this extension, CSAC and EdFund assured the Legislature that the

extension would allow sufficient time to develop a new agreement that responds to the Auditor's concerns. In mid-January, CSAC now stated that it would be unable to meet that deadline and sought another extension until June 30, 2007. The Joint Legislative Budget Committee granted CSAC the extension. Again, CSAC assures the Legislature that it will have a new agreement in place before the June 30, 2007 deadline.

Staff recommends that the committee request that the Student Aid Commission and EdFUND provide an update on the status of adopting a new Operating Agreement.

2. *Status of Pending Federal Changes Impacting EdFUND.*

Pending changes to the FFELP, which are made at the federal level, will have a direct impact on EdFUND and its fiscal condition. Many of the proposed changes are pending and any programmatic reductions would not occur until the beginning of the next federal fiscal year. Even under the best-case scenario, the proposals being debated in Congress may result in a fiscal scenario for EdFUND that will call into question its ability to continue subsidizing the ongoing operations of the California Student Aid Commission and its associated programs.

Following is a discussion of three key components that impact the fiscal condition of EdFUND and services to students:

a) Status of California Voluntary Flexible Agreements (VFA)

One of the most crucial fiscal issues uncovered by the Bureau of State Audits (BSA), in an audit conducted of EdFUND in April of 2006, concerned the negotiation of the state's Voluntary Flexible Agreements (VFA) with the United States Department of Education (USDE).

In 1998, amendments to the Higher Education Act of 1965 gave USDE the authority to negotiate VFAs with individual guaranty agencies. Those guaranty agencies with VFAs receive waivers from certain federal laws and regulations in exchange for meeting specified performance outcomes, all of which are negotiated on a state-by-state basis. The overarching intent of the VFA process is to improve FFELP by encouraging experimentation and sharing of best practices among guaranty agencies. More specifically, VFAs are intended to shift the focus from collecting on defaulted student loans (the emphasis of the standard guaranty agency model) to improving outreach, default prevention, and loan servicing. Currently, five guaranty agencies, including CSAC, have VFAs.

EdFUND is predicting that, moving forward, no additional revenues will be derived from the VFAs. The President's current budget proposal eliminates the program altogether. However, staff would note that, including California, several other large state guarantors (including Texas, Massachusetts, and Wisconsin) have VFA contracts in place, and eliminating the program would have fiscal ramifications nationwide.

b) Defaulted Loan Collection Activities

Like many state guarantors, the bulk of EdFUND's revenues are derived from recoveries on student loan defaults. Under current law, guarantors are allowed to retain 23 percent of the revenue derived from collections activities. Revenues to guarantors that are derived from repackaging defaulted loans into the newer Consolidation Loans, were reduced by the federal government in October of 2006, allowing EdFUND to keep only 10 percent (where they were previously able to retain 18.5 percent).

Under each of the various federal funding scenarios, including the President's Budget Proposal as well as the competing House of Representatives bill (H.R. 5), the amount of funding that guarantors will be allowed to retain will be reduced – anywhere from 3 percent to 7 percent in the first year (depending on the proposal). H.R. 5 would reduce the collection revenues incrementally, allowing guarantors to keep 20 percent of the revenues in 2007-08 and then reducing that amount to 18 percent in out-years. The President's proposal would reduce revenues immediately; beginning in 2007-08, guarantors would be allowed to retain only 16 percent of collection revenues.

c) Assessment of a Default Fee on Student Loans

Recent changes in federal law now require FFELP guaranty agencies (including EdFUND) to charge borrowers a one percent federal default fee on the principal amount of all FFELP loans issued after July 1, 2006 and deposit the proceeds of the fee into the Federal Fund. The assessment of this fee was designed to increase the amount of federal funding that guaranty agencies held in reserve, thus decreasing the federal government's fiscal liability for the program.

Guaranty agencies in exceptional financial health have been able to waive the fee for student borrowers, thereby "backfilling" the fee revenue with their own resources.

EdFUND, whose financial reserves have declined significantly, was able to waive the fee for borrowers from July 1, 2006 through September 30, 2006 – which was the period of time during which the bulk of the student loan activity occurs. In order to avoid having to assess a one percent fee on students in the future, EdFUND has partnered with 18 student loan lenders in the current year and approximately 13 lenders for 2007-08, who have agreed to pay the fee on behalf of its student clients. This arrangement will allow EdFUND to comply with federal law (and deposit an amount equal to one percent into the Federal Fund) without having to charge borrowers directly.

Staff recommends that the Legislature continue closely monitoring all of these issues in order to keep apprised of the fiscal stability of EdFUND.

IV. CALIFORNIA POSTSECONDARY EDUCATION COMMISSION (Item 6420)

Governor's 2007-08 CPEC Budget Proposal				
<i>(Dollars in Thousands)</i>				
			Change	
			Amount	Percent Change
	2006-07 Budgeted	2007-08 Proposed		
CPEC				
General Fund	\$2,177	\$2,186	\$9	0.41%
Federal Funds	9,026	9,028	2	0.02
Reimbursements	3	3	--	--
Totals	\$11,206	\$11,217	\$11	0.10%

The Governor's budget proposal for CPEC contains primarily "baseline" adjustments. This budget would normally be placed on the committee's Consent Agenda if not for proposals by the Administration (contained in Budget Bill provisional language) to: (1) prioritize CPEC's various statutory responsibilities, in light of the level of funding they currently receive; and (2) require CPEC to develop options for a new faculty salary comparison methodology.

A. Prioritization of CPEC Responsibilities.

The Governor's Budget proposal includes language delineating the following three priorities as being the highest for CPEC: (1) conducting all reviews and recommendations of the need for new institutions for public higher education; (2) conducting all reviews and recommendations of the need for new programs within the public higher education segments; and (3) making recommendations for a new methodology for assessing the adequacy of the UC and CSU faculty compensation packages and comparing them with compensation at other universities nationwide.

Current statute assigns a number of different responsibilities to CPEC related to the oversight and coordination of higher education activities. In addition to its statutory tasks, CPEC is occasionally asked to perform other duties by the Governor and the Legislature (such as convening workgroups or studying a particular issue). The Commission also initiates its own agenda and activities.

In 2002, the LAO examined CPEC's statutory workload compared with the fiscal resources it had available, and determined that CPEC was unable to effectively carry out a number of its statutory functions. Given that CPEC generally fulfilled its role as a clearinghouse of higher education information, the LAO recommended that the commission maintain its data management functions while additionally focusing on one or two discrete roles.

The LAO agrees that CPEC's functions need to be prioritized and generally concurs with the first two priorities, as proposed. However, the LAO notes the absence of CPEC's data management functions from the list of priorities and recommends that the legislature adopt revised language to reflect its inclusion.

Staff recommends that the committee adopt the LAO's recommendation and revise Provision (1) of Item 6420-001-0001, as follows, to include CPEC's data management functions among the list of high priority activities:

Provisions: 1. To the extent that the funding in this item is not adequate to fulfill all of the Commission's statutory responsibilities, it is the intent of the Legislature that the Commission prioritize its workload to ensure at a minimum that the following statutory responsibilities are completed in a timely manner during the 2007-08 fiscal year:

- (a) All reviews and recommendations of the need for new institutions for the public higher education segments, inclusive of community colleges, pursuant to subdivision (e) of Section 66903.
- (b) All reviews and recommendations of the need for new programs for the public higher education segments, inclusive of community colleges, pursuant to subdivision (f) of Section 66903.
- (c) All data management responsibilities pursuant to Education Code Section 66903, subdivisions (l) and (m), as well as its responsibilities as the designated state educational agency to carry out federal education programs, as called for in Education Code Section 66903(d).

B. Development of a New Faculty Compensation Methodology.

The Governor's Budget includes language directing CPEC to recommend a new methodology that compares *total* faculty compensation at the UC and CSU with other institutions, as well as recommending options for assessing the appropriateness of these compensation levels.

Both staff and the LAO agree with the need to alter the current methodology, primarily because of an unmet need to capture *total* compensation data rather than just salary levels. Instead of approving the language proposed by the Administration, the LAO recommends altering the language and simply requiring CPEC to collect specified pieces of compensation data and then make that data generally available. According to the LAO, even without having data from comparison institutions, information solely from UC and CSU would still give the legislature and the general public a sense of the investments made in California public higher education.

While staff agrees with the need to alter the methodology, this issue (including the data elements to be collected, which institutions information should be collected from, how the information will be utilized, etc), is a complicated policy issue with a minor nexus to the Budget Act itself.

As such, staff recommends that the committee: (1) Delete Provision (1)(c) of Item 6420-001-0001, as follows, and (2) recommend that the Administration place the contents of the Provision into legislation for consideration by the Legislature through the policy committee process:

~~(c) Consistent with the statutory role of the Commission pursuant to subdivision (s) of Section 66903, at determination of options and a recommendation for a new methodology for faculty compensation comparisons for the University of California (UC) and the California State University (CSU) faculty. Considerations for this effort shall address the intent that faculty compensation shall include, but not necessarily be limited to, all forms of employee compensation including regular salary for the academic year, fringe benefits including health, dental, and vision insurance, vehicle use, housing and mortgage assistance, life insurance, opportunities for additional compensation and any other forms of compensation. The new methodology shall also identify options for assessing the appropriateness of UC and CSU compensation levels. These options should include, but not be limited to, comparing UC and CSU compensation with other appropriate university systems or consider comparisons with other public systems separately from options which may include private institutions. For purposes of developing options and recommendations the Commission shall consult with the Legislative Analyst, the Department of Finance, the University of California and the California State University. The Commission shall initiate this effort no later than September 1, 2007, and shall provide a progress report and timeline for completion of the study no later than January 1, 2008. It is intended that a final report of options considered and recommendations be available to the Governor's Office and the Legislature by June 30, 2008. It is intended that the University of California and the California State University provide any and all data in a timely manner as necessary to facilitate this effort.~~

V. PROPOSED CONSENT

Staff recommends that the following items be Approved as Budgeted.

1. Item 6120-011-0001 Support, California State Library. *April 1, 2007 Finance Letter* (Issue 958). Technical Correction to Distributed Administration Schedule.
2. Item 6120-011-0020 State Law Library, California State Library. Payable from State Law Library Special Account. \$580,000
3. Item 6120-011-0890 Support, California State Library. Payable from the Federal Trust Fund. \$7,022,000
4. Item 6120-011-6000 Support, California State Library. Payable from the California Public Library Construction and Renovation Fund. \$2,874,000
5. Item 6120-011-6029 Support, California State Library, California Cultural and Historical Endowment. \$1,817,000
6. Item 6120-012-0001 Support, California State Library, Debt Service. \$2,348,000
7. Item 6120-013-0001 Support, California State Library, Sutro Library Special Repairs. \$17,000
8. Item 6120-151-0483 Local Assistance, California State Library, Telephonic Services. Payable from the California Deaf and Disabled Telecommunications Program, Administrative Committee Fund. \$552,000
9. Item 6120-160-0001 Local Assistance, California State Library, California Newspaper Project. \$240,000
10. Item 6120-211-0001 Local Assistance, California State Library, Library Development Services. \$21,342,000
11. Item 6120-211-0890 Local Assistance, California State Library, Library Development Services. Payable from the Federal Trust Fund. \$12,518,000
12. Item 6120-213-0001 Local Assistance, California State Library, California English Acquisition and Literacy Program. \$5,064,000
13. Item 6120-490 Reappropriation, California State Library, *add item per April 1, 2007 Finance Letter* (Issue 959) to reappropriate expenditure authority for California Cultural and Historical Endowment.

14. Item 6420-001-0890 Support, California Postsecondary Education Commission, payable from the Federal Trust Fund. \$449,000
15. Item 6420-101-0890 Local Assistance, California Postsecondary Education Commission, payable from the Federal Trust Fund. \$8,579,000
16. Item 6610-001-0890 Support, California State University. Federal Trust Fund \$39,500,000
17. Item 6610-002-0001 Assembly, Senate, Executive, and Judicial Fellows Programs; Center for California Studies, California State University. \$3,111,000
18. 6610-003-0001 Support, California State University. Debt Service \$61,883,000
19. 6610-402 Fee Revenue Deposits into Local Trust Funds – General Fund Offset, California State University.
20. 6610-490 Reappropriation, California State University.
21. Item 7980-101-0890 Local Assistance, California Student Aid Commission. \$10,622,000.
22. Item 7980-495 Reversion, California Student Aid Commission.